

DRAFT ANNUAL BUDGET OF

MAGARENG



MUNICIPALITY

2015/16 TO 2017/18

MEDIUM TERM REVENUE AND EXPENDITURE
FORECAST



ABBREVIATIONS AND ACRONYMS

DME	Department of Mineral and Energy
DORA	Division of Revenue Act
EPWP	Extended Public Work Programme
FMG	Finance Management Grant
FBDM	Frances Baard District Municipality
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Account Committee
MSIG	Municipal System Improvement Grant
MTREF	Medium Term Revenue and Expenditure Framework
PPE	Property, Plant and Equipment
ISDG	Infrastructure Skill Development Grant

INTRODUCTION

A. VISION STATEMENT

Magareng will be a viable and prosperous Local municipality, fully resourced to ensure sustainable, integrated and affordable service delivery to the community.

B. MISSION STATEMENT

We intend to realize our vision through:

- Skills development and institutional capacity-building
- Continuous improvement on internal and external communication
- Strengthening the provision of integrated service delivery
- Striving towards service excellence and value driven Batho Pele principles service delivery • Investing in modern equipment and technology for reliable service delivery
- Creating a conducive environment for business development

C. OUR VALUES:

The Municipality has adopted values which underpin the image, decorum and culture of the organisation as it interacts with its residents. We intend to uphold the following values:

- Teamwork
- Timeliness
- Mutual Respect
- Professionalism
- Striving for excellence

MUNICIPAL BUDGET

DEFINITION OF A MUNICIPAL BUDGET

A municipal budget is generally a projection of future revenues and expenditure. A budget is used to control financial transactions and should be used as a management and planning tool.



It is also a tool for implementing the service delivery objectives of the Municipality as set out in their Integrated Development Plan.

A Municipal budget also provides for greater transparency, accountability, flexibility and predictability within the municipality.

A Municipal budget is divided into a Capital and an Operating Budget:

- a) A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded. The municipality spends money either to buy fixed assets or to add to the value of an existing fixed asset with a useful life that extends beyond one year. Fixed assets include, inter alia, land and buildings, motor vehicles, furniture, computers, office equipment and machinery.
- b) An operating budget is an estimate of the operating revenues which will accrue to the municipality through its normal service delivery and the expenditure that will be incurred through the day to day operations of the municipality over the financial year.

Example: The purchase of a photocopier is a capital expenditure and is budgeted for under the capital budget, but the maintenance and other expenses such as the paper and toner for the photocopier is budgeted for under the operating budget.

OBJECTIVE OF A MUNICIPAL BUDGET

The main objective of a municipal budget is to sensibly allocate realistically expected resources to the municipality's service delivery goals or performance objectives identified as priorities in the approved IDP

The municipal budget is a tool through which the total level of revenue and expenditure are adequately controlled, public resources are appropriately allocated among sectors and programs,

and ensure that departments operate as efficiently as possible within the municipality.

.

MAGARENG



MUNICIPALITY

MAYOR SPEECH WILL BE INCLUDED AFTER THE DRAFT BUDGET IS APPROVED

EXECUTIVE SUMMARY

2 BUDGET OVERVIEW:

2.1 Introduction

The 2015/2015 Medium Term Revenue and Expenditure Framework and the Multi-Year Budget has been prepared to reflect the three year plan of Magareng Local Municipality. In addition, the directive from National Treasury based on MFMA circulars No 74 and 75 were used as the bases for preparation of this budget.

National Treasury has emphasized that the following areas needs to be given attention:

- i) Achieving faster sustainable growth and large scale job creation
- ii) Reforming the system of developing charges to improve fairness and transparency and reduce delays in infrastructure provision.
- iii) Pricing Service Correctly – Management of Rebates and Subsidies
- iv) Under spending on repairs and maintenance
- v) Spending on low priorities – Luxury furnishing and excessive catering

The main challenges experienced in the 2014/2015 Budget can be summarized as follows:

- The increased cost of bulk purchases.
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- The state and lack of maintenance for infrastructure maintenance.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

Over and above the guidelines from National Treasury, the budget was also influenced by the following:

- The performance of 2014/2015 budget was used as baseline.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.

- Tariff and property rate increases should be affordable and generally not to exceed inflation as measured by the CPI except where adjustment are justified and where price increase is prescribed or determined outside the municipality's powers.

In order to ensure sustainability of vision and financial viability of the municipality in the long term, municipal tariffs have adjusted as follows:

- Water: Residential 6%
- Water: Business 10%
- Electricity: 12.20%
- Property rates: 6%
- Sewerage: Residential 6%
- Sewerage: Business 10%
- Refuse Collection: Residential 6%
- Refuse Collection: Business 10%
- Miscellaneous: 6%

Below is a look of how the proposed tariff will affect the consumer:

Current Tariff		New Tariff	% Increase/ Decrease
Refuse removal	64.87	68.76	6.00%
Sewerage Basic Charge	21.04	22.28	6.00%
First Extraction	105.14	111.45	6.00%
Electricity : Basic Charge	99.16	111.26	12.20%
Consumption - 500kwh	485.20	542.80	12.20%
Water : Basic Charge	28.26	29.96	6.00%
Consumption - 25kl	234.42	246.95	6.00%
Property rates :MV	134.98	143.08	6.00%
Improvements	0	0	
	1 173.07	1 276.54	
14% VAT	164.23	178.72	
Total account	1 337.30	1 455.26	7.55%

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. Hence Provision has been made in the 2015/2016 Draft Budget for the provision of free basic services to the value of R7,334,264.00 that consists of the following:

- Water : 6 Kilolitre per month for 2,325 indigent households – R2,190,156
- Sewerage :Free basic sanitation for 2,325 indigent households per month –R2,275,704
- Refuse Removal : free refuse removal for 2,325 indigent households per month – R1,918,404
- Electricity : 50 kwh per month for indigent households – R950,000

The cash flow position of the municipality is expected to be under pressure for 2015/2016, a conservative approach to spending and utilization of Municipal assets will ensure that this matter is addressed.

2.2 Consolidated Overview

The total budget of the municipality is R128 million which comprises of R 114 Operating Budget and R13 million for total Capital Budget, details for the Multi-year Budget are given in the table below:

Details	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
Total Operating Budget	114,725,009	119,847,001	127,021,901
Total Capital Budget	13,939,000	12,196,000	12,580,000
Total	128,664,009	132,043,001	139,601,901

The total operating budget for 2015/2016 has increased with 7.73% compared to the 2014/2015 budget.

The total capital budget for 2015/2016 has decreased with 54.15% compared to the 2014/2014 due to the fact that our capital budget is reliant on grants only (MIG)

3 BUDGET SUMMARY AND ANALYSIS

3.1 Medium Term Outlook 2015/2016 – 2017/2018

CAPITAL BUDGET

The Capital Budget is directly informed by the needs of the community submitted through the IDP process. The Capital Budget is mainly funded through Grant Funding in terms of DORA.

OPERATING BUDGET

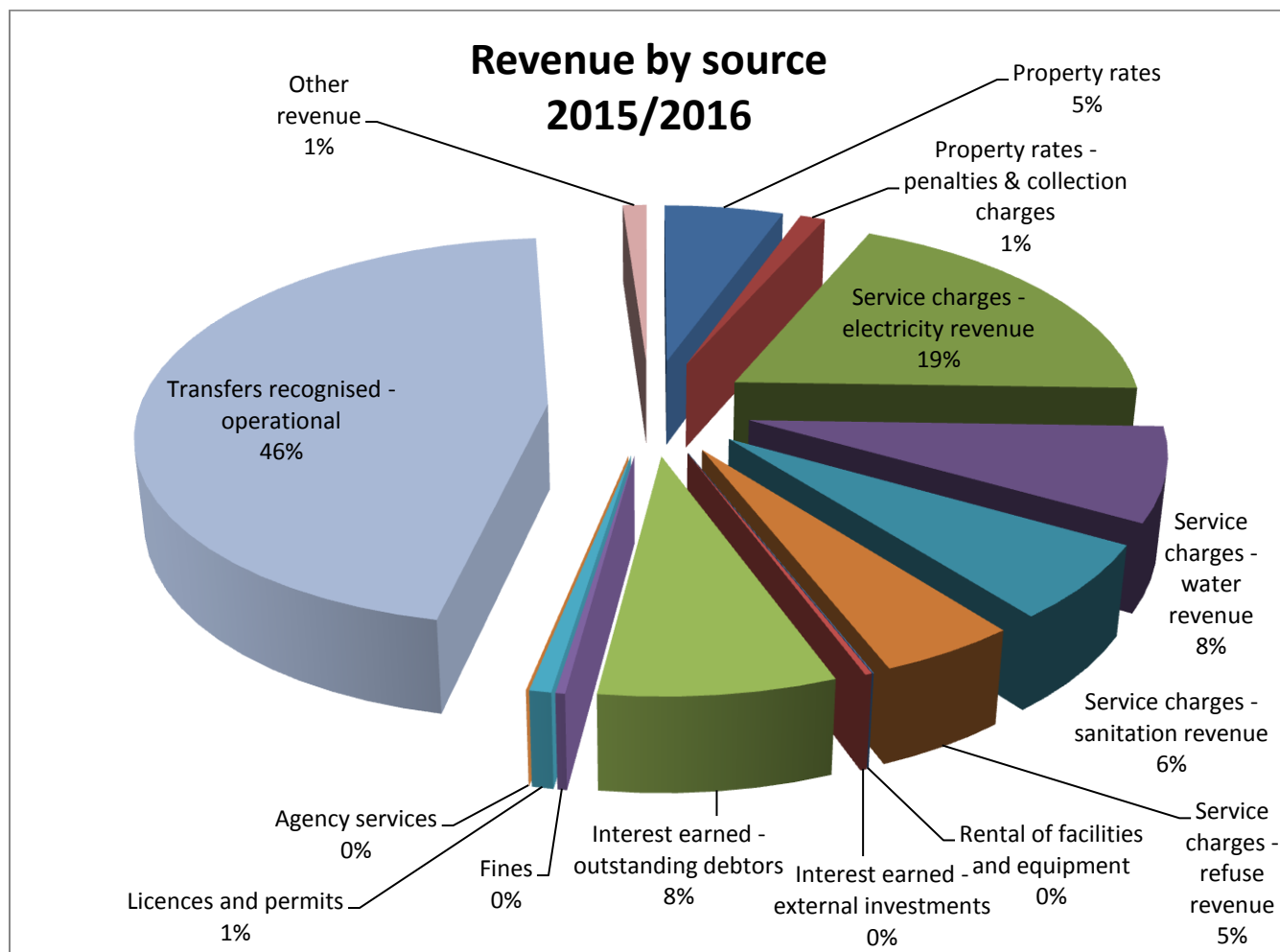
The Operating Budget which deals with the day to day operation of the municipality to ensure service delivery to the communities has conservatively increased for the MTEF. The growth could be attributed to mainly the following:

- Cost of bulk purchases
- Service Delivery back log
- Cost of repair and maintenance
- Employee related cost

3.2 Budget Analysis

3.2.1 Operating Revenue per Source

Revenue By Source	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year 2016/17	Budget Year 2017/18
Revenue By Source						
Property rates	4 522 649	4 897 563	4 897 563	4 750 844	5 016 892	5 317 905
Property rates - penalties & collection charges	-	1 000 000	700 000	1 000 000	1 056 000	1 119 360
Service charges - electricity revenue	13 322 720	15 181 372	17 471 168	16 273 186	17 184 484	18 215 553
Service charges - water revenue	6 164 179	6 296 065	5 846 492	6 681 612	7 055 782	7 479 129
Service charges - sanitation revenue	1 099 498	4 226 683	4 428 683	5 337 725	5 636 638	5 974 836
Service charges - refuse revenue	3 492 264	3 751 236	3 751 236	3 999 828	4 223 818	4 477 247
Service charges - other	18 478					
Rental of facilities and equipment	52 995	60 000	30 000	30 000	31 680	33 581
Interest earned - external investments	240 183	1 003 500	323 302	200 000	211 200	223 872
Interest earned - outstanding debtors	5 199 344	6 490 000	6 635 000	6 785 000	7 164 960	7 594 858
Dividends received	-	-	-			
Fines	202 461	1 012 500	158 750	275 000	290 400	307 824
Licences and permits	397 059	426 500	438 500	630 000	665 280	705 197
Agency services	-	12 500	6 250	12 500	13 200	13 992
Transfers recognised - operational	35 560 105	39 351 000	30 328 692	39 482 750	38 626 280	38 661 057
Other revenue	8 069 405	618 500	1 414 951	950 000	1 003 200	1 063 392
Gains on disposal of PPE		1 987 630	200 000			
Total Revenue (excluding capital transfers and contributions)	78 341 340	86 315 049	76 630 587	86 408 445	88 179 814	91 187 803



3.2.1.1 Property Rates

The property rates show estimated revenue of R 5 million. An amount of R 750,000.00 is budgeted for the income foregone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This therefore reduces this revenue component to R 4,289,092.00. This revenue stream contributes 5% of the total operating revenue. The revised charge tariffs are as follows:

➤ **Property Rates :**

Proposed new tariffs are:

Business : R0, 01951 per R value of Valuation

Residential : R0, 01171 per R value of Valuation

Agriculture : R0, 00049 per r value of Valuation

➤ The first R15 000 of all residential properties are exempted from being taxable.

3.2.1.2 Service Charges

Service charges include electricity, refuse, sewer and water. The total amount budgeted for service charges is R 32 million which is made up of the following amounts:

- Water R6,681,612
- Refuse R 3,999,828
- Sewerage R 5,337,725
- And electricity R 16,273,186

The service charges contribute 38% of the total operating revenue.

3.2.1.3 Interest on Debtors

Interest on debtors is guided by CPI and inflation rate as contained in Circular 75.

3.2.1.4 Agency Fees

The function is done on behalf of Department of roads and transport and estimates for this revenue stream is R12,500.00

3.2.1.5 Grants and Subsidies

Operating

The grants subsidies operational refers to the Equitable shares, Finance Management Grant, Municipal Systems Grant, Improvement Grant and the Library Grant.

The revenue R39 million is based on the DORA allocation in which was made public in April by the Minister of finance. This revenue stream contributes 46% of the total operating revenue.

3.2.1.6 Other Revenue

Other revenue streams contribute 1% on operating revenue with an amount of R950,000.00 this typically includes revenues like:

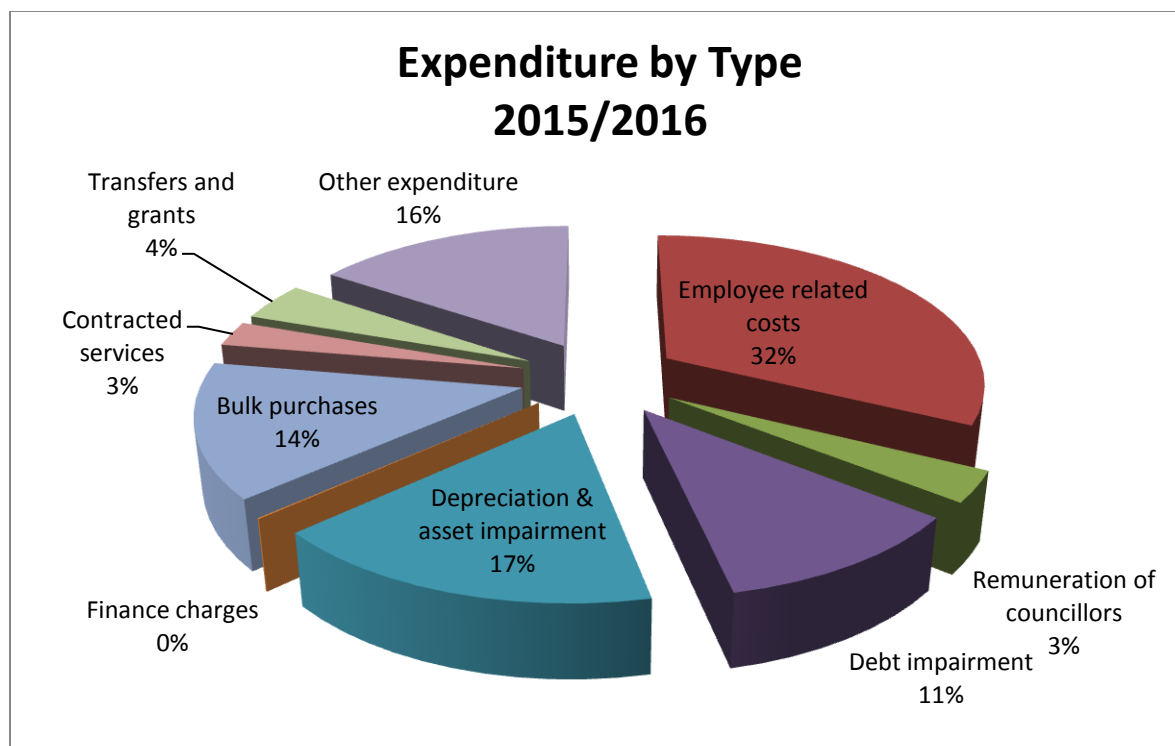
- Actuarial gain
- Burial fees
- Clearance certificates and
- Valuation certificates

3.2.1.7 License and Permits

License and permits stream contribute 1% on operating budget with an amount of R665,280.00

3.2.2 Operating Expenditure

Expenditure by type R thousand	2013/14	Current Year 2014/15		2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
<u>Expenditure By Type</u>						
Employee related costs	27 695 417	33 857 392	32 690 686	37 051 267	39 126 138	41 473 706
Remuneration of councillors	2 893 211	3 119 260	3 119 260	3 783 202	3 995 061	4 234 765
Debt impairment	2 636 994	18 852 959	18 852 961	12 677 241	13 387 166	14 190 396
Depreciation & asset impairment	19 626 349	11 186 314	11 186 314	19 164 549	20 237 764	21 452 030
Finance charges	992 194	100 000	100 000	100 000	105 600	111 936
Bulk purchases	16 626 554	16 739 713	13 839 713	16 342 736	17 257 929	18 293 405
Other materials	-	-	-			
Contracted services	1 459 577	2 842 000	2 177 500	3 054 500	3 225 552	3 419 085
Transfers and grants	3 042 182	6 761 000	6 761 000	4 716 750	3 678 280	3 883 057
Other expenditure	20 609 939	21 829 507	17 134 848	17 834 764	18 833 511	19 963 521
Loss on disposal of PPE						
Total Expenditure	95 582 417	115 288 144	105 862 283	114 725 009	119 847 001	127 021 901
Transfers recognised - capital	12 776 804	22 287 000	21 487 000	13 939 000	12 196 000	12 580 000



3.2.1 Employee Related Cost

Employee related cost has been based on the current organization structure and provision has been made for 6% increase pending the salary and wage negotiation outcome. The expenditure category represents 32% of the total operating expenditure.

3.2.2 Remuneration of Councillors

Provision has been made for 6% increase for remuneration of Councillors this amounts to 3% of total operating expenditure.

3.2.3 General Expenditure

General expenditure amounts to of 16% of total operating expenditure the decline of -22% from the original budget of 2014/2015 can be attributed to the municipality experiencing cash flow problems hence a conservatives approach has been taken in this regards. This category typically include expenditure such as:

- SLGSA Affiliation fees
- Audit fees
- Motor vehicle fuel
- Indigents subsidies and
- Travel and accommodation for official and councilors

3.2.4 Bulk Purchases

The bulk purchases for water and electricity for the 2015/2016 amounted to R16,342,736 for the financial year, which is 16% of the total operating expenditure. The expenditure category is influenced by Eskom increases and CPIX which is 14.24% and 6% on water respectively.

3.2.5 Repairs and Maintenance

Although contribution to repairs and maintenance from council site is not up to the required standard an amount of R2 500 000 was allocated by Frances-Baard which will assist in reaching the required standards. From the municipality itself we have allocated an amount of R937,500.00

3.2.6 Contracted Services

Contracted Services has been increased with an average of 7%. This expenditure category is influenced by various contractual obligations with Service Providers.

3.3 Capital Budget

This relates to conditional grants and has decreased from R 22,287,000.00 (2014/2015) to R 13,939,000(2015/2016). This can be attributed to the fact that the municipality was only approved to capital projects which are as follows;

- The upgrading of internal roads in Warrenvale and Ikhutseng which will be funded by MIG.
- The reticulation of electricity in warrenvale that will be funded by INEP

Both these grants funded and gazetted in terms of DORA

4. CHALLENGES 2014/2015

4.1 Cash Flow

The municipality experienced negative cash flow as a result non billing which leads to non-payment by consumers. The municipality also did not received its full allocation of the amount of Equitable share that was that was due to it, an amount of R9,315,000.00 was withheld by national treasury due to unspent conditional grants in past financial years.

5. BUDGET PROCESS

5.1 Overview

The budget process is an effective process that the municipality must undertake to ensure good governance and to promote accountability. Budgeting is primarily about priorities and choices that the municipality has to make in deciding how to meet the objectives set for service delivery.

The budget preparation process is guided by the following legislative requirements:

- Municipal Budget and Reporting Regulation
- Municipal Finance Management Act
- Municipal System Act
- Municipal Structures Act

The process started with the approval of the IDP and Budget timetable in August 2014 which included the process plan for the formulation of the new IDP.

Communities will be consulted wherein a ward based plan will be developed to deal with infrastructure requirement of the municipality.

Projects will be identified and prioritize taking into consideration the funding available.

5.2 Political Oversight

Section 53(1)(a) states that the Executive Mayor must provide political guidance over the budget process and the priorities that must guide the preparation of the budget.

It is also entrusted to the Executive Mayor to ensure that the budget is approved on time and that the Service Delivery and Budget Implementation plans are developed and approved.

5.3 Consultation Process

Section 22 of the Municipal Finance Management Act requires that after tabling the Draft Annual Budget, the municipality must avail the budget to public and also invite local community to submit comments on the approved budget.

Consultative meetings will be held during April 2015 wherein the budget will be presented to the communities.

5.4 Schedule of Key Deadlines

One of the objectives of the budget timetable is to ensure that there is interaction between the development of the IDP and budget. The budget time table was approved by Council on the 29th of August 2014, thus 10 months before the start of the financial year.

6. BUDGET ASSUMPTION

6.1 Key Financial Indicators

Budget assumption / parameters are determined before the budget process, guided by the economic outlook, movement in terms of markets and the National Treasury guidelines. All steps have been taken to be in line with National Treasury Guidelines, however the following factor affect the municipal operation and the budget should be accordingly:

- Anticipated high fuel price
- High Salaries
- Increase by Eskom

Key budget parameters used in developing the operation budget.

Description	2015/2016	2016/2017	2017/2018
Inflation	4.8%	5.9%	5.6%
Remuneration:			
Employees	6%	5.6%	6%
Councilors	6%	5.6%	6%
Fuel / Diesel	6%	5.6%	6%
Water Purchases	6%	5.6%	6%
Electricity Purchases	12.20%	5.6%	6%
General Expenditure	6%	5.6%	6%

6.2 Credit Rating

The Municipality has not undergone a credit rating.

6.3 Borrowing and Investments

The MFMA permits the borrowing for long-term if it is for the acquisition of capital goods such as plant, equipment and infrastructure. Currently the municipality is not considering any long term borrowing except for short- term in the form of an overdraft.

Currently the municipality has no investments and only call accounts are utilized upon receipts of grants.

7. OVERVIEW OF BUDGET RELATED POLICIES AND AMENDMENTS

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipality's budget related policies. These policies are available from the municipality on request.

The accounting policy is reviewed on an ongoing basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

Budget related policies are attached.

7.1 Virement Policy

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

7.2 Accounting policy

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

7.3 Supply Chain Management Policy

The supply chain management policy was adopted and amendments are as result of council resolution.

7.4 Credit control and Debt collection policy

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

7.6 Property Rates policy

7.7 Tariff policy

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

7.8 Fixed Asset Management Policy

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

8 DISCLOSURE ON IMPLEMENTATION OF MFMA AND OTHER LEGISLATION

8.1 Budget

The amount budget has been developed in terms of the MFMA Circulars and Reporting Regulation and National Treasury Requirements. Budget has been tabled within the required legislative timeframes. It has also compiled in line with budget related policies,thus Virement Policy,

Accounting policy, Supply Chain Management Policy, Credit control and Debt collection policy, Revenue policy on tariff setting modeling, Fixed Asset Management Policy.

8.2 Budget and Treasury Office

A budget and treasury office has been established.

8.3 Audit Committee

The Audit Committee has not yet been established and shared - services is used with the district.

8.4 Municipal Public Accounts Committee

The committee has been established and is supported by various sub-committees.

9. ANNUAL BUDGET SCHEDULE

The Budget schedules are attached.

10. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The SDBIP is a key management implementation and monitoring tool, which provides operational content to the end-of-year service delivery targets, set in the budget and IDP.

The SDBIP will be tabled after the final budget approval in May as per the requirement of the legislation.

11. BUDGET RELATED RECOMMENDATIONS

11.1 That the report on the Medium Term Revenue and Expenditure Framework for 2015/16 and the indicative allocations for the outer years **BE APPROVED**.

11.2 That in terms of Section 24 of the Municipal Finance Management Act, Act 56 of 2003, the Medium Term Revenue and Expenditure Framework for 2015/16 amounting to R 114 million Operating Budget and R 13 million Capital Budget; and the indicative allocations for the outers years; and the multiyear and single year capital appropriations **BE APPROVED** as follows:

Table A1	:	Budget Summary
Table A2	:	Financial Performance
Table A3	:	Budgeted Financial Performance per vote
Table A4	:	Budgeted Financial Performance (Revenue and Expenditure)
Table A5	:	Capital Expenditure per Vote
Table A6	:	Financial Position
Table A7	:	Cash Flow
Table A8	:	Reserves
Table A9	:	Assets
Table A10	:	Basic Service delivery Mearsurement

MAGARENG**MUNICIPALITY****QUALITY CERTIFICATION**

I..... (Print Name), Municipal Manager of Magareng local Municipality, hereby certify that the Draft budget have been prepared accordance with the Municipal Finance Management Act and the regulations made under the Act.

Signature

Date

I..... (Print Name), Chief Finance Officer of Magareng local Municipality, hereby certify that the Draft budget have been prepared accordance with the Municipal Finance Management Act and the regulations made under the Act.

Signature

Date